Testimony of Richard A. Hubbell before the Government Reform Subcommittee on Regulatory Affairs of the U.S. House of Representatives, April 5, 2006

I am the chief executive officer of RPC, a small oilfield services company providing services and equipment to producers of oil and gas in the petroleum-producing regions of the United States and a few international markets. RPC has approximately 1,600 employees, the majority of whom are in the domestic U.S. In order to deal with the cyclical nature of our business and provide the best possible returns to our shareholders, we acquired a pleasure boat manufacturer in 1986. A few years ago, we decided that it was in the best interests of our shareholders to form a separate company and spin off our pleasure boat manufacturer. We formed Marine Products Corporation to accomplish this, and it became a separate public company five years ago. Marine Products Corporation is the third-largest manufacturer of sterndrive pleasure boats in the United States, with two domestic manufacturing facilities and approximately 1,100 domestic employees. Our strategies have provided good long-term returns to our shareholders. Today, the combined market capitalization of the two companies is approximately $1.7 billion.

As a result of the spin-off transaction I just outlined, I manage a small corporate headquarters staff that handles the common corporate functions of these two public companies. We believe that it is in the best interests of our shareholders to have this common headquarters structure, because it allows us to spread the costs and leverage the knowledge of this staff over such functions as accounting, public company reporting and compliance and financial management. It also allows us to work more effectively with outside constituents such as our public accounting firm and our shareholders.

We managed the implementation of the Sarbanes-Oxley Act of 2002 in the same manner. For my companies, which are relatively small, this implementation created a large and ongoing structure which is expensive for our shareholders and time-consuming for our corporate and field employees. For example, during the last year prior to the implementation of Sarbanes-Oxley, our public company compliance costs for each company were approximately $70 thousand. After the implementation of Sarbanes-Oxley, our ongoing annual costs have grown to over $1 million per company.

I acknowledge the loss of confidence in the integrity of the business community that shook our society a few years ago, and I agree that decisive measures had to be taken in order to restore public confidence. I believe that my companies have benefited in certain ways from the documentation of internal controls, tightening of policies and procedures, and enhanced transparency in our operations and financial reporting that have resulted from our compliance with the Sarbanes-Oxley Act.

However, I also believe that my companies and our shareholders have not benefited in proportion to the expenses we have incurred. In addition, I believe that we have suffered certain opportunity costs, since we now spend more time to comply with and document policies and procedures than we had in the past. This means that we can devote less time to the analysis of our financial and operational results, management of the operations of our businesses, and the intangible aspects of company management that relate to experience and judgment. Sarbanes-Oxley has made many companies consider going private and has, I believe, prevented others from becoming public. This limits access to capital markets for U.S. companies, and in the long run, damages American competitiveness in the global marketplace.

In addition, I have serious concerns about the approach to the implementation of Section 404 of the Sarbanes-Oxley Act. The text of the provision itself is brief and ambiguous, and it provides a great deal of leeway to a company's public accounting firm as to what the accounting firm believes to be effective internal controls. In the case of my companies, we are "controlled corporations" with high insider ownership, and common sense dictates a different level of testing and documentation than for public companies with a larger shareholder base. I believe that in the current environment, public accounting firms have been overzealous in their interpretation of Section 404, and in many cases have abandoned basic concepts of materiality and common sense. To allow public accounting firms to have this level of control ignores several conflicts of interest, because there is an inherent economic incentive to spend more time and conduct more testing on internal controls, which both reduces the risk of missing a weakness in a client's internal controls and allows them to charge higher fees. As a result of the interpretation of Section 404 of the Sarbanes-Oxley Act, the work required by public companies to comply with Section 404 of the Act has been overly burdensome without a proportionate benefit to the financial community or investing public.